United Nations DP/2012/3

Executive Board of the United Nations Development Programme and of the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
5 December 2011

Original: English

First regular session 2012
1 to 3 February 2012, New York
Item 2 of the provisional agenda
Programming arrangements

Second review of the programming arrangements, 2008-2013

Summary

The 2008-2013 programming arrangements play an integral role in helping UNDP achieve development results. They fund critical resource facilities through which regular programme resources are allocated in support of Executive Board-approved programme country documents, which reflect individual country needs that fit within strategic-plan priorities. The first review of the programming arrangements was conducted during the second half of 2009 and focused on two major issues: increasing flexibility and responsiveness to programme country needs, and further rationalization within the context of new classifications for development activities and associated costs. This led to the adoption of decision 2010/3 at the first regular session 2010.

The second review of the programming arrangements responds to decision 2010/3 and underscores the need to carefully and strategically consider the second review within the context of three concurrent initiatives that inform and are integrally linked to the programming arrangements: the new strategic plan; the integrated budget; and the agenda for organizational change. A phased approach leading up to the approval of the next programming arrangements is recommended. Therefore, UNDP proposes that, using guidance to be provided by the Board on the second review contained herein, it will further develop and analyse the preferred option(s) and model(s) for more detailed consideration at the second regular session 2012. Thereafter, the most viable option and model would be further refined and submitted for final consideration and approval at the second regular session 2013, in conjunction with the approval of the new strategic plan and the integrated budget.

The second review focuses on four broad areas of opportunity and related options and models as follows:

(a) Global strategic presence;

11-62332 (E) 231211

Please recycle

(b) TRAC 1 eligibility and allocation criteria;

(c) TRAC system; and

(d) Further rationalization of the programming arrangements framework

Proposed elements of a draft decision are also provided.

Contents

Chapter

I. Background

II. Areas of opportunity, options and models

III. The way forward

Tables

1. Comparison of eligibility thresholds

2. Comparative analysis of TRAC 1 allocation models by TRAC 1 eligibility options

Annexes

1. 2008-2013 programming arrangements framework

2. Proposal for further rationalization of the programming arrangements framework

Page
3
5
16
10
13
17
18

I. Background

Strategic role and context

1. The programming arrangements play an integral role in helping UNDP achieve development results through the allocation of regular programme resources in support of Executive Board-approved programme country documents, which reflect individual country needs that fit within strategic-plan priorities. The midterm review of the programming arrangements (DP/2010/5) submitted to the Executive Board in January 2010 raised a number of concerns with respect to the need for increased flexibility and responsiveness to meet the demands of a dynamic spectrum of programme countries with diverse development challenges. In so doing, it highlighted the need to sharpen the substantive programme links between what UNDP does and why, and how resources are allocated.

2. In response, Executive Board decision 2010/3 extended the programming arrangements by two years to cover the period 2008-2013, as requested by UNDP and in line with the strategic plan extension. The decision also requested UNDP to submit to the Executive Board, for consideration at its second regular session in September 2011, a second review of the programming arrangements. This review was to include an option to implement in 2012, and based on the midterm review, concrete actionable proposals to improve the operational results of the strategic plan, 2008-2013 with respect to:

(a) Possible improvement of the criteria to support the target for resource assignments from core (TRAC 1) calculation methodology;

(b) Improved support to least developed countries/low-income countries within the resources envelope of the programming arrangements;

(c) A strategy for improved support to middle-income countries in accordance with General Assembly resolutions 63/233 and 64/208, and the need to further balance the principles of universality and progressivity;

(d) Options for reallocating the fixed lines identified in document DP/2010/5, annex 1;

(e) Scaling up support to countries affected by conflicts and natural disasters, including in response to sudden crisis, conflict prevention, disaster risk reduction and early recovery; and

(f) Integrating the programme activities of the United Nations Capital Development Fund through the establishment of a specific allocation.

3. In view of the critical, complex and interrelated nature of the issues raised in decision 2010/3, UNDP proposed and the Executive Board agreed to postpone initial formal consideration of the second review of the programming arrangements, 2008-2013, to the first regular session 2012. It is anticipated that the Board will provide guidance on the options proposed herein, and that UNDP will further develop and analyse the preferred options for more detailed consideration at the second regular session 2012. It is anticipated that, for final Board consideration and approval, the most viable options will be presented in full to the second regular session 2013, at the same time as the new strategic plan and integrated budget.

4. The primary reasons for the postponement of the second review and the phased approach for approving the new programming arrangements are the breadth and the depth of the issues raised and the need to carefully and strategically consider them within the context of the three concurrent initiatives described in paragraph 5. These initiatives — the new strategic plan, 2014-2017; the integrated budget; and the agenda for organizational change — inform and are integrally linked to the programming arrangements.

5. More specifically, the new strategic plan will set the strategic vision, substantive orientation and organizational priorities for the future. It will thus inform the programming activities that UNDP will undertake and why within the context of the next programming arrangements. The integrated budget, which is scheduled for final consideration at the second regular session in September 2013, will increase budgetary transparency and integration, as well as harmonization and comparability with the United Nations Children's Fund (UNICEF) and UNFPA. In so doing, the integrated budget will incorporate into one planning and budgetary framework the planning and resource-allocation considerations currently reflected in the separate frameworks of the programming arrangements and institutional budget. The agenda for organizational change is expected to re-energize UNDP to successfully implement the remainder of the current strategic plan and the new strategic plan. In so doing, it will inform the range and types of service offerings and service delivery models that UNDP will need to adopt.

6. Further to the above, in an informal note provided to the Executive Board during the second regular session 2011, and at a related informal session, UNDP advised that the programming arrangements should remain intact for the remaining two years (2012-2013) of the current strategic plan and programming arrangements period. UNDP also advised that its response to decision 2010/3 should be considered within the context of sharpening the substantive links between:

(a) What differentiated development services UNDP offers in response to differentiated country requirements, as discussed in the midterm review of the strategic plan for 2008-2013, and ongoing work under the agenda for organizational change;

(b) Why UNDP provides these differentiated development services within the longer term vision and evolving priorities of the new strategic plan; and

(c) How UNDP should allocate regular programme resources to fund these differentiated development services within the context of the next programming arrangements and the integrated budget.

Principles and resource considerations

7. In decision 2007/33 on the programming arrangements for the period 2008-2011 (extended to 2008-2013 in decision 2010/3), the Executive Board "reaffirmed the principles of eligibility of all recipient countries on the basis of the fundamental characteristics of the operational activities of the United Nations development system, which are, inter alia, universality, neutrality, multilateralism and its voluntary nature and the capacity to respond to the needs of all recipient countries in accordance with their own development priorities; and in this context, recognizes the principles of the United Nations Development Programme activities, which

include progressivity, impartiality, transparency and predictability of flow of resources for all recipient countries".

8. To further highlight, three important and closely interrelated principles underlie the mandate of UNDP: predictability, universality and progressivity. Predictability relates to the receipt of sufficient regular resources, which form the bedrock of UNDP and which can be made available to sustain its multilateral and universal character. Universality ensures that UNDP development resources and related activities are available to support all eligible countries. Progressivity focuses the distribution of regular programme resources to primarily low-income and least developed countries.

9. However, due to the continued erosion of the UNDP annual regular resources contributions base, it has become increasingly difficult to ensure that predictable and sufficient amounts of regular resources are readily available for distribution through the programming arrangements to help programme countries make transformational changes. Thus related earmarkings are tentative in nature since they are based on a targeted level of total regular programme resources estimated to become available for a multi-year programming period. The targeted level may or may not be realized depending on the actual levels of annual voluntary contributions. For example, due to current resource constraints, prudent internal regular resources planning assumptions have dictated that the annual regular resources programme base of $700 million be reduced to $600 million for 2011 and to $570 million for 2012 and 2013. If the current situation is not reversed, the regular resources programme base could be subject to further reductions in 2014 and future years.

10. In summary, predictability and availability of adequate regular resources, and flexibility in their allocation, are critical prerequisites if UNDP is to rapidly and strategically prioritize and deploy sufficient amounts of resources to where they are needed most.

II. Areas of opportunity, options and models

11. In order to initially respond to decision 2010/3 in a pragmatic, substantive and coherent manner, four broad areas of opportunity have been identified and elaborated on below as follows:

(a) Global strategic presence based on programmatic and physical presence;

(b) TRAC 1 based on eligibility and allocation criteria;

(c) TRAC system based on TRAC 1, TRAC 2 and TRAC 3; and

(d) Further rationalization of the programming arrangements framework.

12. In so doing, three critical overarching assumptions have been made:

(a) The programmatic presence of UNDP can lead to a more flexible range of options for physical presence. This is in line with the desire to adopt tailored physical presences that are cost efficient and respond effectively to national development priorities;

(b) A new TRAC 1 calculation methodology should continue to include a predictability parameter (formerly referred to as a floor) to ensure a smooth

transition from the current (2008-2013) programming period to the next (2014-2017); and

(c) A new TRAC 1 calculation methodology should continue to include the same percentage allocation ranges as in the present (2008-2013) programming arrangements: low-income countries (LICs) would continue to receive between 85 and 91 per cent of the resources, middle-income countries (MICs) between 9 and 15 per cent, and least developed countries (LDCs) at least 60 per cent.

A. Global strategic presence

13. One overarching opportunity that UNDP is currently addressing within the context of the new strategic plan, the integrated budget and the agenda for organizational change relates to: (i) an enhanced relationship between flexible and effective models of physical presence, which involve more efficient use of resources; and (ii) the identification of service-delivery models to optimize development effectiveness activities. Implementing these new initiatives would be contingent on:

(a) Rethinking and enhancing operational approaches so as to effectively and efficiently provide differentiated development and management services, along with the requisite supporting capacities and structures, in direct response to the different requirements of eligible programme countries;

(b) Reaffirming the TRAC 1 eligibility classification scheme and criteria for determining at what point programme countries graduate to net contributor country (NCC) status and are thus no longer eligible to participate in regular-resources-funded programme activities;

(c) Revisiting the TRAC 1 allocation criteria which determine the amount of TRAC 1 resources assignable to eligible programme countries; and

(d) The need to allocate regular programme resources to adequately support development activities in a transparent, predictable and effective manner.

Programmatic presence

14. In principle and in practice, programmatic needs are driven by the existing or anticipated development challenges of a particular country. These challenges can present themselves in one form or another in all countries spanning the development spectrum.

15. While there are obvious development challenges in LDCs and crisis countries, MICs may also have their own development challenges in terms of a need for policy frameworks, to reduce poverty and inequalities, and to improve resilience. In these circumstances, countries may wish to seek UNDP assistance.

16. From a South-South perspective, programme countries that are relatively more developed may wish to share their experiences with and transfer knowledge to less developed countries. To do so successfully, countries on the providing and receiving ends may require specific yet limited external development advice to ensure the continued consolidation of gains and to maximize future benefits.

17. More specifically, human development over the past 10-15 years has been promoted through a richer, more varied and complex web of trade, aid and investment links, as well as by exchanges of knowledge, ideas and experiences between countries. International cooperation has evolved very quickly and dramatically from a unidirectional flow of financial assistance, policy advice and guidance from developed to developing countries into a multidirectional process encompassing North-South, South-North and South-South flows. Three fundamental factors have been driving this process, especially the relatively recent South-South dimension, and these factors suggest that the process still has a long way to go.

(a) The obvious mutual benefits from commercial and economic exchange that takes advantage of the new opportunities created by rapidly evolving and expanding emerging markets.

(b) A recognition that the wheel may have been invented somewhere else already; it may be sensible and practical to learn from the experiences of countries that have dealt successfully (or otherwise) with a wide range of issues under the actual conditions — whether constraints or opportunities — of a developing country.

(c) Perhaps the most interesting and often overlooked: how the globalized world has led to significant convergence of policy and institutional "solutions" for a growing range of issues, and regardless of the development classification or category of countries. In other words, there are increasingly common expectations, standards, rules and practices being applied or upheld by developing countries, no matter what their income status. These responses are being embraced in order to compete successfully in the global economy and also as a way of dealing with social, cultural and other issues. In this setting, a "solution" for an LDC's specific concern — for instance, the quality of its financial regulation — may lie in MIC's approaches, adapted of course to the requirements of a different setting.

18. Thus from a global perspective, the business of development cannot be conducted or assisted effectively without tapping into the pool of knowledge, expertise and ideas that exists across the full spectrum of developing countries. The global network will become an important feature of development cooperation in the future, a means of accessing and applying knowledge about what has and has not worked, knowledge that has been strengthened through testing in a wide variety of countries. Furthermore, as it becomes more urgent to take global action on problems that are beyond the remit or resources of any single nation to remedy — to take action on climate change, above all — the demand for cross-country reach and mobilization will escalate.

19. Transformational change at the country level — whether in LDCs, LICs, MICs, NCCs, or in fragile or stable settings — will rely increasingly on how well potential development options are successfully formulated, tested and implemented, and on how well the resulting development knowledge is captured, codified and shared. The ultimate objective will be to speed up the identification and adoption of relevant solutions, leading to the empowerment of people and the building of resilient societies and institutions.

20. Whether it is viewed from an internal country perspective, a South-South perspective or a global perspective, a vast array of existing and emerging development challenges will continue to confront developing countries. As such, these countries will require valued partnerships and strong conduits in order to

access a wide range of capabilities and development interventions, regardless of how upstream or downstream their demands may be. Whenever programme countries consider UNDP to be the best partner or conduit for such interventions, they should be allowed to access UNDP programmatic support within its areas of expertise.

21. The analysis and findings of the midterm review of the strategic plan (DP/2011/22) underscore the unique development role and mandate of UNDP, and highlight its comparative advantage in supporting programme countries through the delivery of development services, providing United Nations coordination and building partnerships. It is also clear that in some areas there is consistent demand across programme countries, for example: that UNDP serve as a gateway to the United Nations system, and that there be a focus on climate change, democratic governance and wider regional cooperation.

22. As UNDP adapts to the rapidly evolving nature of development cooperation, it will also need to update its operational model to maintain its global reach and capabilities while substantially improving organizational efficiency.

Physical presence

23. UNDP recognizes that to achieve long-term sustainability requires improvements in organizational effectiveness and operational efficiencies. Two key needs are (i) to develop differentiated service offerings and operational models for different country contexts to guide resource allocations; and (ii) to arrive at the optimum configuration of knowledge, policy and corporate services to support effective delivery at the country level. A "one-size-fits-all" approach to physical presence is not viable.

24. There is already scope to increase operational efficiencies and reduce operating costs. UNDP has a differentiated operational footprint in some middle-income countries (e.g. through project offices; centres of excellence) and small island developing States (e.g. through multi-country offices and joint country programmes). The focus now is on systematizing the UNDP approach and on developing a menu of service offerings and operating modalities fine-tuned to the realities of programme country contexts, operational realities and the available resources.

B. TRAC 1

25. TRAC 1 refers to the annual level of regular programme resources targeted to be available for an individual programme country during the programming arrangements period. They are allocated centrally in line with TRAC 1 eligibility and allocation criteria approved by the Executive Board.

Eligibility criteria

26. TRAC 1 eligibility criteria determine at what point — after crossing a predetermined threshold level — programme countries graduate to net contributor country status and thus are no longer eligible to participate in regular-resources-funded programme activities. TRAC 1 eligibility criteria also determine the classifications of countries and the extent to which groups of eligible programme

countries, such as low-income and middle-income countries, participate, based on a predetermined threshold that separates these two groups.

27. It is noted, however, that economic development takes place on a continuum. Therefore, a country just below a threshold is not significantly different from a country that is just above that threshold. Also, there is no universally agreed country eligibility classification system. Thus each organization tries to classify countries according to organizational mandates and priorities. In addition, while income-based country classification schemes facilitate the grouping of countries into predetermined categories, the multidimensional aspects of poverty do not lend themselves to such simple categorizations. Three eligibility criteria options are presented below for consideration.

Option 1: Existing income-based eligibility criteria

28. This eligibility option represents the status quo. At present, UNDP classifies programme countries in three income-based groupings: low income; middle income and net contributor. In so doing, it uses thresholds established in line with gross national income (GNI) per capita base-year data derived using the World Bank Atlas methodology. UNDP adjusts these figures for inflation at the beginning of each new programming period in line with decision 2007/33. Thus, the currently applicable notional GNI per capita TRAC 1 eligibility threshold of $5,500, which represents the point at which a MIC would graduate to NCC classification, would be adjusted upward to $6,500. Similarly, the currently applicable notional GNI per capita TRAC 1 threshold of $1,050, which separates LICs from MICs, would be adjusted upward to $1,250.

29. Under option 1, newly designated NCCs are referred to as transitional NCCs and are given a four-year grace period during which they continue to receive TRAC 1 allocations. Countries that maintain NCC designation in a successive programming period subsequently become ineligible to receive TRAC 1 programme resources.

30. Implementation of option 1 would result in the designation of a greater number of NCCs in comparison to options 2 and 3 below.

Option 2: Hybrid income-based eligibility criteria

31. This eligibility option represents a combination of the existing UNDP eligibility income-based criteria under option 1 and the existing UNICEF/World Bank income-based eligibility criteria discussed below.

32. UNICEF recently adopted the World Bank country classification scheme which, similar to that of UNDP, is based on GNI per capita figures derived using the World Bank Atlas methodology. However, the classification groupings and GNI per capita thresholds differ from those used by UNDP. Also, UNICEF does not take the base-year approach, but rather revises the thresholds annually in line with World Bank revisions. UNICEF also grants a two-year grace period to newly designated NCCs. This is two years less than grace period granted by UNDP.

33. Under a hybrid approach, UNDP would adopt the World Bank/UNICEF high income threshold to determine programme country eligibility (i.e. NCC designation). The notional GNI per capita TRAC 1 eligibility threshold under option 2 would become $12,195. This represents the point at which a MIC would graduate to NCC classification.

34. The World Bank/UNICEF approach would not be adopted for programme countries in the low- and middle-income groups in order to avoid major changes in the classifications of these two groups of countries. Therefore, the UNDP income-based notional GNI per capita TRAC 1 inflation-adjusted threshold separating LICs from MICs under option 1 ($1,250) would apply, with possibly a stratified distribution of core programme resources within the middle-income country group.

35. Implementation of option 2 would result in the designation of a greater number of NCCs in comparison to option 3 below.

Option 3: Human Development Index (HDI)-based eligibility

36. This eligibility option is based on the Human Development Index, which is derived from the *Human Development Report*, an internationally recognized product of UNDP. The Human Development Index classifies countries into the following quartiles: very high, high, medium and low human development. This system is transparent, simple and data driven, and does not use predetermined cut-off points for classifying countries.

37. Option 3 determines TRAC 1 eligibility based on the breakpoint between countries with high and very high human development. Thus countries with very high human development would be considered as NCCs and thus not eligible for TRAC 1 resources. All other countries would be eligible.

38. Implementation of option 3 would result in the designation of a smaller number of countries as NCCs in comparison to options 1 and 2 discussed above.

39. Table 1 contains a summary comparison of the thresholds for the above three options.

Table 1
Comparison of eligibility thresholds

Category	**Option 1: Existing Income-based eligibility** (based on 2009 GNI/capita)	**Option 2: Hybrid income-based eligibility** (based on 2009 GNI/capita)	**Option 3: HDI-based eligibility** (based on 2011 HDI)		**2008-2013 model** (based on 2005 GNI/capita)
LICs	Up to $1,250	Up to $1,250	Up to $1,250 (*)		Up to $1,050
MICs	$1,251 to $6,500	$1,251 to $12,195	Above $1,250 (*) and with HDI less than "very high"		$1,051 to $5,550
Transitional NCCs	Above $6,500 for first time	Above $12,195 for first time	"Very high" HDI and in "NCC" status for first time		Above $5,550 for first time
NCCs	Above $6,500	Above $12,195	With "very high" HDI		Above $5,550

(*) for comparison and reporting purposes, the LIC/MIC threshold of $1,250 applies also for option 3.

40. TRAC 1 allocation criteria determine the amount of TRAC 1 resources that are assigned to eligible (non NCC) programme countries within the context of an overall calculation methodology framework. UNDP has explored a number of different approaches for improving the criteria that support the TRAC 1 calculation methodology. These include:

(a) continuation of the current criteria of using per capita GNI (derived using the World Bank Atlas methodology) and population, and following the present calculation methodology (the Baseline Model);

(b) continuation of the current criteria but using a modified calculation methodology (the Streamlined Model);

(c) replacement of the current criteria with per capita GNI in purchasing power parity (PPP) terms, along with population, using a modified calculation methodology (the PPP Model); and

(d) replacement of the current criteria with the Human Development Index and population using a modified calculation methodology (the HDI Model).

41. All four of these models are viable approaches in terms of coverage, robustness of data and international acceptability. These four models are discussed in more detail below.

42. Three other criteria were also initially considered: percentage of the population under the international poverty line, the inequality-adjusted HDI and the Human Poverty Index. While all three of these approaches provide interesting and useful data, they nevertheless lack the coverage, robustness of data and international acceptability of the four models discussed below. Therefore, no further work with these models is deemed appropriate at this time.

Model 1: Baseline Model

43. The Baseline Model preserves the status quo, using GNI per capita in World Bank Atlas terms and population for a given year (2009) throughout the programming arrangements period. It also continues to apply the current weighting system for population and GNI.

Model 2: Streamlined Model

44. The Streamlined Model represents a continuation of the Baseline Model and the use of GNI per capita in World Bank Atlas terms and population for a given year (2009) throughout the programming arrangements period. It does, however, deviate from the Baseline Model by introducing several technical improvements, including the replacement of the arbitrary weighting system in use for population and GNI with simple mathematical formulas similar to those used by UNICEF and the World Health Organization (WHO).

45. While the Streamlined Model is considered technically sound and minimally disruptive to the current calculation methodology, it does not address the fundamental challenge of improving the basic criteria to better reflect the multidimensional aspects of poverty.

Model 3: Purchasing Power Parity (PPP) Model

46. The figures for GNI per capita derived using the World Bank Atlas methodology reduce the impact of exchange-rate fluctuations on cross-country

comparisons of national incomes. By contrast, GNI per capita income as derived using the purchasing power parity (PPP) methodology measures the relative purchasing power, despite differential rates of inflation, of different countries' currencies. Comparisons are drawn using the same types of goods and services. The PPP methodology thus allows for more accurate comparisons of standards of living between countries, taking into consideration the real price levels of tradable and non-tradable goods and services.

47. Although some GNI per capita PPP data is currently unavailable for a small number of countries, this approach represents a viable alternative to the World Bank Atlas methodology. This is because it allows for more accurate comparisons of standards of living across countries, accounting for the fact that goods and services may cost more in one country than in another. In addition, PPP data is less susceptible to abrupt fluctuations, and thus country transitions and graduations are smoother. The approach is currently used by UNDP in the computation of the income component of the HDI. A number of other organizations also use PPP data. WHO and the United Nations Educational, Scientific and Cultural Organization (UNESCO) use it data to measure health and education expenditures. The European Union uses it to allocate structural funds to member countries, and the World Bank to establish international poverty lines. The IMF uses PPP data to measure the sizes of economies and aggregate rates of growth.

48. The PPP Model outlined in the present document uses 2010 GNI per capita PPP data and 2009 World Bank population data. It also introduces the same simple mathematical formulas used in the Streamlined Model. However, as with the GNI per capita World Bank Atlas methodology, the GNI per capita PPP methodology does not address the fundamental challenge of improving the basic criteria to better reflect the multidimensional aspects of poverty.

Model 4: Human Development Index (HDI) Model

49. One of the cornerstones of the human development paradigm is the acknowledgment that poverty is a multidimensional challenge, of which poverty measured in income terms is but one. One consistent message of the *Human Development Report* is that there is a need to shift from using income and economic growth as the sole and final measures of well-being, and as if they were ends in themselves. Therefore, while the HDI approach considers both income and growth as important means of achieving progress, it also factors in two other dimensions essential to an individual's well-being: education and health.

50. The HDI is generally considered a broader measure of the economic and social progress of a country than GNI per capita data alone, regardless of methodology. It is also closely aligned with the mandate of UNDP to support human development and the achievement of the MDGs. It is a balanced measure of human development which integrates the three primary dimensions essential to human development and to developing human capabilities: income (using the PPP methodology), health and education. WHO has been using HDI in its resources allocation model since 1998.

51. Thus the HDI model addresses the fundamental challenge of improving the basic criteria to better reflect the multidimensional nature of poverty. In so doing, the model uses HDI values for a base year to cover the entire period of the programming arrangements. This is similar to the use in the other models of a base year's values for GNI per capita data while relying on the World Bank Atlas and PPP approaches.

52. The HDI Model is derived from 2011 *Human Development Report* and 2009 World Bank population data. It also classifies countries according to the *Human Development Report* methodology of quartiles. The approach for determining the graduation threshold is based on the current ranking of countries by quartile. Those top quartile countries — the 25 per cent that have the highest HDI values (0.793 and above in the 2011 HDI) — are considered to have graduated to net contributor country status. The HDI Model also introduces the same simple mathematical formulas used in the Streamlined Model.

53. While there are still a few HDI data availability and ranking issues, they can be addressed in a satisfactory and transparent manner for purposes of the TRAC calculation methodology. For the purposes of this analysis and in consultation with the Human Development Report Office (HDRO), HDI data gaps were filled through the use of alternative data sources, and estimated HDI values were calculated using regression techniques.

Comparative analysis

54. A high-level statistical comparative analysis of the Baseline, Streamlined, PPP and HDI models was conducted. Simulations for each model were run for the year 2012 using a $700 million annual core programme base to which the current legislated earmarking for TRAC 1 was applied. This resulted in approximately $250 million in available TRAC 1 resources.

55. The results of this analysis are contained in table 2. For all TRAC 1 eligibility criteria and TRAC 1 allocation criteria models, the basic LIC/MIC and LDC parameters are respected. Between 85 per cent and 91 per cent of TRAC 1 resources continue to be allocated to LICs, and more than 60 per cent of TRAC 1 resources continue to be allocated to LDCs. The analysis can only be used to predict relative notional regional allocation levels for the 2014-2017 period, since the final calculations will be based on per capita GNI and HDI data available in early 2013.

Table 2
Comparative analysis of TRAC 1 allocation models by TRAC 1 eligibility options

	Option 1 TRAC 1 Eligibility Criteria: Existing Income Based				**Option 2 TRAC 1 Eligibility Criteria: Hybrid Income Based**				**Option 3 TRAC 1 Eligibility Criteria: HDI Based**			
Income Category	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1
Low	88%	87%	88%	90%	87%	86%	87%	86%	87%	85%	86%	86%
Mid	12%	13%	12%	12%	13%	14%	13%	14%	13%	15%	14%	14%
NCC	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Transitional NCC	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
LDC Status	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1	**Model 1:** Baseline Model TRAC 1	**Model 2:** Streamlined Model TRAC 1	**Model 3:** PPP Model TRAC 1	**Model 4:** HDI Model TRAC 1
LDC	68%	67%	68%	68%	67%	66%	67%	68%	67%	66%	66%	68%
non-LDC	32%	33%	32%	32%	33%	34%	33%	32%	33%	34%	34%	32%
Grand Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

C. TRAC System

56. The lack of predictable and adequate regular resources for programme activities at the country level compromises the ability of UNDP to provide high-level priority advisory services and to support new initiatives for policy formulation and capacity-building efforts by programme countries. It also jeopardizes the mobilization of non-core programme resources since important seed money to jumpstart initiatives, including joint United Nations system activities, is often not available in sufficient amounts. Furthermore, it can impede the ability of UNDP to provide the requisite human and financial resources required to adequately respond to countries affected by conflicts and natural disasters.

57. UNDP regular programme resource allocations to programme countries are made within the framework of targets for resource assignments from the core (TRACs). The TRAC is a three-tiered system in which TRAC 1 and TRAC 2 are closely linked in a combined pool of TRAC 1/2 resources, with TRAC 3 resources being made available through a separate pool.

58. As previously mentioned, TRAC 1 refers to the annual level of regular programme resources targeted to be available for an individual programme country during the programming arrangements period. They are allocated centrally in line with TRAC 1 eligibility and allocation criteria approved by the Executive Board.

59. TRAC 2 resources are allocated at the discretion of UNDP senior management in line with regional ceilings and non-formula based allocation criteria. TRAC 2 allocations are demand-driven and focus on strengthening national capacities to achieve the Millennium Development Goals (MDGs). From a substantive perspective, TRAC 2 resources are considered fully fungible with TRAC 1 resources.

60. The separate allocation review process to which TRAC 2 resources are subjected does not necessarily add strategic value. This is because the approved criteria mirror the underlying mandate by which TRAC 1 resources are allocated. As such, the allocation of TRAC 2 resources, like TRAC 1 resources, is equally in line with the strategic plan priorities, UNDP focus areas and cross-cutting issues reflected in country programmes approved by the Executive Board.

61. TRAC 3 resources provide a critical capacity to respond quickly and flexibly to the development needs of countries affected by conflicts and natural disasters. They apply to activities in the areas of: crisis prevention; response to sudden crises; conflict prevention and recovery; and disaster risk reduction and recovery. TRAC 3 resources are demand driven and allocated on a case-by-case basis through the Bureau for Crisis Prevention and Recovery.

62. To strengthen the responsiveness and flexibility of the TRAC system the following steps could be considered:

(a) TRAC 1 resources could be revised in line with the discussion in paragraphs 25-55 above.

(b) TRAC 2 resources could continue to be allocated by UNDP using non-formula based allocation criteria in line with existing regional ceilings. However, improved organizational prioritizing and incentives would need to be built into the TRAC 2 allocation criteria in order to enhance the ability of UNDP to effectively respond to the requirements of different types of countries. This could

include an increased emphasis on: links to the strategic plan priorities and links to cross-cutting practices that ensure more effective results with respect to South-South cooperation, knowledge management, gender mainstreaming and capacity development. UNDP will continue to monitor and report on results, in harmony with country programme documents and programmatic evaluations.

(c) The establishment of a contingency fund could be considered to further improve the flexibility of UNDP responses to compelling, unforeseen programme country demands, high-priority emerging challenges and strategic opportunities.

(d) TRAC 3 resources could continue to be prioritized and allocated in line with existing criteria, bearing in mind decision 2010/3, paragraph 5 in which the Board decided that, "in cases of emergency, the Administrator may, in agreement with the government concerned, divert funds from approved activities and uncommitted funds, which have already been allocated to the country, for emergency relief and rehabilitation operations in line with the UNDP strategic plan, 2008-2013, to be reported to the Executive Board at its subsequent session".

D. Further rationalization of the programming arrangements framework

63. The current programming arrangements framework is presented in annex 1. It represents a mixed architecture of fixed and variable lines. These fund: substantive programmes at the country, regional and global levels; specific inputs such as economists; and organizational units such as the Office for Development Studies (ODS) and the Human Development Report Office (HDRO).

64. The report on the midterm review of the programming arrangements (DP/2010/5) proposed improved alignment with the strategic plan within the context of the roadmap to an integrated budget from 2014 onwards, as well as decision 2009/22 which approved four broad classifications of activities and related costs: (i) development; (ii) management; (iii) United Nations development coordination; and (iv) special purpose. Decision 2009/22 also approved two sub-classifications under development: programmes and development effectiveness.

65. The midterm review of the programming arrangements specifically proposed, and decision 2010/3 subsequently approved, that the eight fixed lines should be classified as follows:

(a) Support to Resident Coordinator: under United Nations development coordination

(b) Programme of Assistance to the Palestinian People (PAPP): under programme

(c) HDRO: under programme

(d) ODS: under programme

(e) Gender mainstreaming: under development effectiveness

(f) South-South cooperation: under development effectiveness

(g) Development support services: under development effectiveness

(h) Economists: under development effectiveness

66. Annex 2 presents a further rationalization of the programming arrangements. It proposes the establishment of a fixed programme line for UNCDF activities under the development effectiveness classification, with an allocation level that is yet to be determined. It also proposes the integration of the ODS programme line and its allocation into the Global Programme.

III. The way forward

67. UNDP seeks Executive Board consideration of the challenges and options presented herein during the first regular session 2012. Based on the guidance provided, UNDP proposes to further develop and analyse the preferred options for detailed consideration at the second regular session 2012. The objective of the second regular session would then be to select the most viable option for continued refinement, review and approval at the second regular session 2013, in conjunction with the approval of the new strategic plan and the integrated budget.

68. The proposed elements of a draft decision are as follows:

(a) Recalls decision 2010/3 which extended the programming arrangements by two years to cover the period 2008-2013 in line with the strategic plan extension;

(b) Takes note of the report on the second review of the programming arrangements, 2008-2013 (DP/2012/3), and the three key concurrent initiatives that inform and are integrally linked to it: the new strategic plan; the integrated budget; and the agenda for organizational change;

(c) Reaffirms the principles of predictability, universality and progressivity that underlie the mandate of UNDP;

(d) Takes further note of the four broad areas of opportunity identified in paragraph 11 and the information, options and models elaborated on in paragraphs 13-66;

(e) Agrees with the three overarching assumptions made by UNDP in paragraph 12;

(f) Requests UNDP to submit to the Executive Board at its second regular session, 2012 a further elaboration of global strategic presence in line with the discussions on the new strategic plan;

(g) Also requests UNDP to submit to the Executive Board at its second regular session, 2012, additional information and analysis with respect to the preferred option(s) on the TRAC 1 eligibility criteria and preferred model(s) on the TRAC 1 allocation criteria.

Annex 1

2008-2013 Programming Arrangements Framework

(per EB decisions 2007/33 and 2010/3)

Programme		Allocations*
Programmes		
- TRAC 1 and TRAC 2	$	512.7
- TRAC 3	$	46.8
- Regional Programme	$	58.6
- Global Programme	$	18.5
- Human Development Report Office	$	6.7
- Office of Development Studies	$	1.8
- Programme of Assistance to the Palestinian People	$	3.2
Subtotal - Programmes	**$**	**648.3**
Development Effectiveness		
- Resources equivalent to 52 professional posts and related GOE reclassified from the Global Programme	$	14.0
- South-South Cooperation Programme	$	4.5
- Economists Programme	$	7.0
- Development Support Services	$	7.0
- Gender Mainstreaming	$	3.2
Subtotal - Development Effectiveness	**$**	**35.7**
UN Development Coordination		
- Support to the Resident Coordinator	**$**	**16.0**
Grand Total	**$**	**700.0**

* At annual core programme base of $700 million

Annex 2

Proposal for further rationalization of the programming arrangements framework

Development Activities	Allocations *
Programmes	
Country Window	
TRAC 1 and TRAC 2	$ 512.7
TRAC 3	$ 46.8
PAPP	$ 3.2
Regional Window	
Regional Programme	$ 58.6
Global Window	
Global Programmes (includes ODS)	$ 20.3
HDRO	$ 6.7
Subtotal - Programmes	**$ 648.3**
Development Effectiveness	
South-South Cooperation	$ 4.5
Development Support Services (DSS)	$ 7.0
Economist	$ 7.0
Gender Mainstreaming	$ 3.2
Policy Advisory Services (Reclassified from Global Programme)	$ 14.0
UNCDF	-----TBD-----
Subtotal - Development Effectiveness	**$ 35.7**
United Nations Development Coordination	
Support to the Resident Coordinator	$ 16.0
Grand Total	**$ 700.0**

* At annual core programme base of $700 million; assumes continuation of existing programme lines and allocation levels.